



# AUDIT NEWS

## Introduction

Welcome to Audit News 58, your regulatory update containing the latest technical guidance and best practice advice. Please share this issue with colleagues involved in audit work.

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## International Education Standard 8

On 1 July, a new International Education Standard (IES) issued by IFAC's IAESB came into force. IES 8 sets new professional competence requirements for audit engagement partners.

The new standard builds on the existing focus on professional competence that is already a requirement of legislation, professional body licensing requirements and registered auditors' internal due diligence. IES 8 will be complementary to firms' current procedures and practices but it's important to be aware of the change and to take appropriate steps.

We have now amended the application process for responsible individuals (RIs). All applicants and their firms must confirm that those proposed as RIs have achieved the competencies listed in IES 8 through their work experience and CPD. **The application form requires examples.** Similarly, in our future monitoring reviews, we will check if firms have:

- appropriate procedures in place to meet the requirements of IES 8; and
- that selected engagement partners and other RIs are using a planned programme of CPD to ensure they are maintaining the competencies required by IES 8.

**Download IES 8 from the IFAC website** (registration is free)

## **FRC monitoring of PIE auditors (article written by the AQR team at the Financial Reporting Council)**

Since 17 June 2016, any firm which audits at least one PIE must now be monitored directly by the competent authority, which is the FRC in the UK. The FRC has also determined that AIM quoted entities with a market cap over €200m (average over 3 years) and Lloyd's syndicates will also be retained for audit monitoring. Firms with at least one large PIE audit will be visited by FRC's AQR team every three years but for other firms these visits will extend to every six years. AQR visits will cover both the firm's overall quality control procedures for the audit of PIEs and the PIE/retained audits. ICAEW will continue to visit firms to review non-PIE/retained audits and may need to review some aspects of firm's procedures to complete their reviews.

By their nature AQR reviews are critical as they focus on areas where the audit or the firm's procedures could be improved (or aren't fully meeting requirements). The ARD requires that audit quality reviews are proportionate. AQR recognises that not all firms need the same procedures and will therefore focus on understanding how the procedures achieve the quality control standards appropriate for the firm. AQR's audit engagement reviews are risk focused but will also cover some core audit areas such as cash, stock takes or auditor independence. AQR's ultimate aim is to work with firms to continuously improve audit quality overall and the reviews will focus on those matters which are most important to achieve this. A willingness to recognise where improvements can be made signposts a firm's commitment to improving audit quality.

The FRC is a transparent regulator and will communicate AQR's most important findings and their overall assessment of the quality of the audits reviewed directly to the Audit Committee (or equivalent) to help them discharge their responsibilities to monitor the quality of their auditors. Firms will be asked to provide actions in response to these findings to provide the Audit Committee with the confidence that these important matters are being addressed to improve the audit going forward. Where AQR sees good quality audit work they will communicate this also.

The FRC issues a number of audit quality and thematic review reports each year which provide a good indicator of best practices and where firms and audit teams have the most difficulty. All firms expecting their first AQR visit should look at these and think about whether they recognise the findings and whether they can make some improvements in advance of a visit.

### **Timing of monitoring visits under the new ARD regime – what to expect?**

Prior to the implementation of the new ARD regime on 17 June 2016, many firms were used to receiving an ICAEW monitoring visit at fairly standard intervals – every three years if your firm had any 'major audits' in FRC scope or other AIM / ISDX companies or, if not, once every six years.

The ARD and the FRC when delegating activities to ICAEW as an RSB make it clear that RSBs should now use a risk-based approach to selecting firms for their next visit and should not for instance automatically default to six years between visits. The various factors for consideration include;

- the size and complexity of the firm;
- its RSB scope audit clients; and
- previous regulatory history.

### **What does this mean for firms?**

As noted above, firms with audits in FRC scope will periodically receive a visit from the FRC's AQR team to review this work. The FRC will advise firms when a visit is due to take place.

These firms will also receive a separate ICAEW monitoring visit to review all other audit work. The next visit date for these and all other firms registered with ICAEW will depend upon the risk-based selection approach noted above.

So while many firms may have their next visit on or just before the six-year anniversary of the previous visit, this is not an automatic default or right under the ARD. A number of firms will find their next visit takes place over a shorter interval. We will continue to notify firms when they have

been selected for a visit.

### **Clients' Money Regulations – introduction of clients' money regulation 8A**

A new clients' money regulation will come into effect on 1 January 2017. This new regulation, clients' money regulation 8A, aims to ensure the firm's client bank account is being used for a lawful and legitimate purpose and bona fide transactions. Payments into and out of the firm's client bank account must relate to an accountancy service that is being (or has been or will be) provided by the firm. [Access guidance on the new regulation](#)

### **The future of non-audit assurance**

The International Auditing and Assurance Standards Board (IAASB) has issued a discussion paper on the future of non-audit assurance. '[Supporting credibility and trust in emerging forms of external reporting](#)' sets out ten key challenges for assurance providers. It asks what approach the IAASB should take to support professional accountants in the developing market. Should this take the form of standards, similar to the auditing standards, or be a continuation of the current model built around the high level International Standard for Assurance Engagements (ISAE) 3000? Would non-binding guidance be useful to address the challenges? The consultation closes on 15 December.

### **Audit and Assurance Faculty Autumn Roadshow: 2016 and beyond: future audit challenges and opportunities.**

Don't miss out on the opportunity to hear insights and guidance to help you deal with the challenges resulting from the changes in 2016 and beyond. [Find out more](#)